



Internal Audit Charter

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during December 2021**

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1. INTRODUCTION

The purpose, authority and responsibility of the Internal Audit Activity (IAA) must, in consultation with the APAC, be formally defined in an Internal Audit Charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework as prescribed by the Institute of Internal Auditors.

The IAA will govern itself by adherence to the Institute of Internal Auditors' International Professional Practices Framework's mandatory guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing. The mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the IIA's performance.

In conformity with the commitment of the Council to be fully accountable to all stakeholders of the Bitou Municipality (the Municipality), and by the requirements of Section 165 (1) of the Municipal Finance Management Act, no 56 of 2003 (MFMA), the guidance articulated by King IV and National Treasury's circular 65 (Internal Audit and Audit Committee), an Internal Audit Function has been established.

The Municipality has appointed a Chief Audit Executive (CAE) as the head of the Internal Audit Function. This Charter sets out the framework within which the Internal Audit Section will operate to make positive contributions to the Municipality.

The Municipality (collectively the Council, Executive Mayor, Municipal Manager, as Accounting Officer, and Directors and Senior Management) is ultimately responsible for overseeing the establishment of effective systems of internal control to provide reasonable assurance that the Municipality's financial and non-financial objectives are achieved. Executing this responsibility includes the establishment of an Internal Audit function under this document.

Internal control is understood to mean the process aimed at achieving reasonable assurance about the realisation of the following objectives:

- The accomplishment of established objectives and goals for operations and programmes.
- The economical and efficient use of resources.
- The reliability and integrity of financial and non-financial information.
- Compliance with relevant policies, procedures, laws and regulations.
- Safeguarding of assets.

This document defines the role, organisational status, authority, responsibilities and scope of activities of the Internal Audit function. It also includes the principles underlying the realisation of the objectives of the function and the translation thereof into operational activities.

2. PURPOSE AND MISSION

The purpose of the Internal Audit activity of the Bitou Municipality is to provide independent, objective assurance and consulting services designed to add value and improve Bitou Municipality's operation.

The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. The internal audit activity helps Bitou Municipality accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

The section, headed by the CAE, will report administratively to the Accounting Officer or his/her nominee and functionally to the Audit and Performance Audit Committee (APAC) with unrestricted access to the Chairperson of the APAC.

In addition, the CAE should:

- Have a standing invitation to attend Directors meetings (EMT);
- Have a standing invitation to attend Mayoral (MAYCO) and Council meetings;
- Evaluate the quality of work performed by the Auditor-General (AG);
- Perform such other functions delegated by the Accounting Officer and approved by the Audit and Performance Audit Committee.

3. CORE PRINCIPLES

The core principles for the professional practice of internal auditing, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, the following principles should be present and operating effectively:

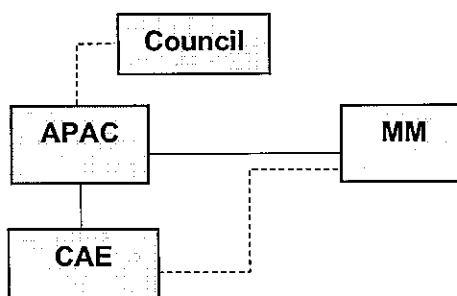
- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independence)
- Aligns with the strategies, objectives, and risks of the organization
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provide risk-based assurance
- Is insightful, proactive, and future-focused
- Promotes organizational improvement.

4. AUTHORITY

The CAE will report functionally to the APAC and administratively to the Municipal Manager. To establish, maintain, and assure that Bitou Municipality's internal audit activity has sufficient authority to fulfil its duties, the APAC will:

- Approve the IAA's charter
- Approve the risk-based internal audit plan
- Receive communications from the CAE on the IAA's performance relative to its plan and other matters
- Make appropriate inquiries of management and the CAE to determine whether there are scope or resource limitations

In consideration of government remuneration policies, practices and procedures, the APAC should recommend the positioning and the remuneration levels of the CAE.



The CAE will have unrestricted access to, and communicate and interact directly with, the AC, including private meetings without management present.

The IAA is authorised to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of Bitou Municipality, as well as other specialized services from within or outside the Municipality, to complete the engagement.

5. INDEPENDENCE AND OBJECTIVITY

The CAE will ensure that the IAA remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the CAE determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the Bitou Municipality (unless properly channelled and approved).
- Initiating or approving transactions external to the IAA.
- Directing the activities of any Bitou Municipality employee not employed in the IAA, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the CAE has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact, or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.

- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The CAE will confirm to the APAC, at least annually, the organisational independence of the IAA.

The CAE will disclose to the APAC any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

6. SCOPE OF INTERNAL AUDIT ACTIVITIES

The scope of internal activities encompasses, but is not limited to, objective examinations of evidence to provide independent assessments to the APAC and management on the adequacy and effectiveness of risk management, control and governance processes of the Bitou Municipality. Internal audit assessments include whether:

- Risks relating to the achievement of the Bitou Municipality's strategic objectives are appropriately identified and managed.
- The actions of the Bitou Municipality's employees and contractors comply with the Bitou Municipality policies, procedures and applicable laws, regulations and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Bitou Municipality.
- Information and the means used to identify, measure, analyze, classify, and report such information is reliable and have integrity.
- Resources and assets are acquired economically, utilized efficiently, and adequately safeguarded.

The CAE will report periodically to senior management and the APAC regarding:

- The IAA's purpose, authority and responsibility.
- The IAA's plan and performance are relative to the plan.

- The IAA's conformance with the IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and controls issues, including fraud risks, governance issues and other matters requiring the attention of, or requested by the APAC.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the Bitou Municipality.

The CAE also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The IAA may perform advisory and related service activities, the nature and scope of which will be agreed with management, provided the IAA does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

7. ROLE AND RESPONSIBILITY OF THE IAA

The CAE has the responsibility to:

Submit, at least annually, to senior management and the APAC a risk-based internal audit plan for review and approval.

Communicate to senior management and the APAC the impact of resource limitations on the internal audit plan.

Review and adjust the internal audit plan, as necessary, in response to changes in the Bitou Municipality's risks, operations, programs, systems and controls.

Communicate to senior management and the APAC any significant interim changes to the internal audit plan.

Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.

Follow up on engagement findings and corrective actions, and report periodically to senior management and the APAC any corrective actions not effectively implemented. Ensure the principles of integrity, objectivity, confidentiality and competency are applied and upheld.

Ensure the IAA collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.

Ensure trends and emerging issues that could impact the Bitou Municipality are considered and communicated to senior management and the APAC as appropriate.

Ensure emerging trends and successful practices in internal auditing are considered.

Establish and ensure adherence to policies and procedures designed to guide the IAA.

Ensure adherence to the Bitou Municipality's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the APAC.

8. RESPONSIBILITIES OF MANAGEMENT

Management is responsible for:

- Ensuring that a risk assessment is conducted regularly (as determined by applicable policy) to identify emerging risks of the Bitou Municipality.
- Ensuring that the IAA has access to records and other sources of information.
- Maintaining internal control, including proper accounting records and other management information suitable for the operations of the Bitou Municipality.
- Providing the IAA with full support and cooperation at all levels of operations.
- Ensuring the IAA has an adequate budget and staffing to perform its responsibilities.
- Reviewing internal audit reports, and implementing the agreed actions necessary, taking into account the Bitou Municipality's resources.
- To ensure all the information requested from IA are submitted within the requested timeframes

9. QUALITY ASSURANCE AND IMPROVEMENT PLAN

The IAA will maintain a quality assurance and improvement program that covers key aspects of the IAA. The program will include an evaluation of the IAA's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's

Code of Ethics. The program will also assess the efficiency and effectiveness of the IAA and identify opportunities for improvement.

The CAE will communicate to senior management and the APAC on the IAA's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) at least annually and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Bitou Municipality.

10. EXTERNAL RELATIONSHIPS

Though the Internal Audit function shall have an independent status within the Municipality, the section shall interact with and complement the Departments and Sections to promote the objectives of the Municipality. In particular, the section shall:

- Coordinate its work with that of other assurance providers.
- Coordinate all review, evaluation and/or investigation activities within the Municipality, as may be requested and approved by the APAC.
- To facilitate effective combined assurance, liaise with the external auditors and:
 - Hold periodic meetings to discuss the planned activities.
 - Confirm that the audit programs are complementary.
 - Exchange audit work papers including systems documentation where practical.
 - Exchange management letters.
- Verify, where necessary, data and information given to external agencies.
- Comply with Standards, Codes of Conduct and Ethics that are promulgated from time to time by the relevant professional bodies.

Internal Audit must assess the adequacy of the combined assurance approach adopted by the Municipality. This assessment includes the adequacy of risks covered by the different assurance providers and the reliability of the assurance provided.

11. FRAUD

The identification and prevention of Fraud is a management responsibility. Internal audit will report to management any red flags that might have come to their attention during the normal process of its activities.

The Internal Audit Unit will also take into consideration the Fraud and Corruption Policy when reporting on any potential areas of fraud.

Internal audit is well-positioned to assist management to identify the main fraud risks facing the Council and could assist management in designing appropriate controls that could minimize the effects of risks.

Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

12. CONSULTING ENGAGEMENTS

The CAE must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

Internal auditors must exercise due professional care during a consulting engagement by considering the:


- Needs and expectations of clients, including the nature, timing, and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement's objectives; and
- Cost of the consulting engagement in relation to potential benefits.

When performing consulting engagements, the nature and scope of the engagement are agreed upon with the management prior to its commencement. The internal auditors will not assume any management responsibilities during and after the engagement.

13. APPROVAL

This charter may be amended as required and will be reviewed by the relevant stakeholders at least annually.

Adopted by:




Chief Audit Executive

6 December 2021

Date

And approved by:




Audit Committee Chairperson

6 December 2021

Date

Endorsed by:



Municipal Manager

6 December 2021

Date